



**APPROVED ON 05-14-2010**

**CITY OF SCOTTSDALE  
AUDIT COMMITTEE**

**REGULAR MEETING MINUTES  
MONDAY, APRIL 26, 2010**

**CITY HALL, KIVA CONFERENCE ROOM  
3939 N. DRINKWATER BLVD.  
SCOTTSDALE, AZ 85251**

**PRESENT:** Councilman Robert Littlefield, Chair  
Vice-Mayor Lisa Borowsky  
Councilwoman Suzanne Klapp

**STAFF:** Joyce Gilbride, City Auditor's Office  
Lisa Gurtler, City Auditor's Office  
Joanna Munar, City Auditor's Office  
Lee Pettit, City Auditors' Office  
Sharron Walker, City Auditor's Office  
Anna Henthorn, Finance & Accounting  
Jeff Nichols, Finance & Accounting  
David Smith, Finance & Accounting  
Bob DeLeon, Fire Department  
Willie McDonald, Fire Department  
Steve Randall, Fire Department  
Judy Dewey, Human Resources  
Velicia McMillan, Human Resources  
Ken Nemic, Human Resources

**CALL TO ORDER**

Chair Littlefield called the meeting to order at 3:32 p.m. All Committee Members were present as noted above.

**1. Approval of Minutes, Regular Meeting, February 22, 2010**

Committee Member Borowsky moved to approve the minutes of the February 22, 2010 meeting. Seconded by Committee Member Klapp, the motion carried unanimously with a vote of three (3) to zero (0).

## **2. Discussion and possible direction to staff regarding Audit No. 1010, HIPAA Compliance**

Mr. Pettit noted that the audit evaluated the City's compliance with privacy and security rules associated with the Health Insurance Portability and Accountability Act (or HIPAA), including contract administration, controls surrounding the safeguarding and exposure of medical information. Departments responsible for creating and maintaining protected health information (PHI) include benefits management in the Human Resources division and payroll in the Finance and Accounting division. The City Attorney is currently determining whether HIPAA is applicable to information created and maintained by Emergency Medical Services (EMS) within the Fire department. Controls protecting EMS information were evaluated based on department policy and Arizona public records law.

The City was found to be generally in compliance with the HIPAA privacy and security rules. However, it was suggested that improvements could be made in the areas of contract administration and training, verification of business associate agreements with all contracted benefit providers, and providing HIPAA training for all individuals with access to PHI. In addition, improvements can be made to the safeguards protecting sensitive information in the Human Resources and payroll information system by reducing the number of system administrators and/or limiting access, ensuring that read-only users are not able to edit critical information, and terminating access of former employees in a timely manner. Finally, EMS encounter forms can be better protected during transmission to Scottsdale Healthcare, and the Fire department should ensure a signed authorization form is obtained for public record requests and process those requests in a timely manner.

In response to a question by Committee Member Klapp, Ms. Henthorn explained that the Finance & Accounting and Human Resources Division provided a joint management response.

## **3. Discussion and possible direction to staff regarding Quarterly Audit Follow-Up Report**

Ms. Walker noted that approximately 80% of the recommendations either have been implemented or are in process. She plans to do a FY 2010 summary report that will include all of the information from the quarterly reports. Starting in July for the next fiscal year, the option is to either have a rolling five-year report or report only on items that are still open. Her preference is to have a five-year rolling report because it would provide better context than year-to-year differences in implementation.

Chairman Littlefield noted a preference for the five-year report and suggested that the information be included as part of the City Council annual audit plan presentation. Committee Members Klapp and Borowsky agreed.

Ms. Walker noted that an attachment was included listing the audits that have not been implemented, along with management and auditor's status reports. The City Attorney had indicated that as long as these are best practice recommendations rather than compliance issues, it could be at the discretion of the Committee whether to recommend more specific Council action for anything non-compliant. Ms. Walker highlighted example areas where the question is cost effectiveness of the previous recommendation. Chairman Littlefield requested that the items be put on a future

agenda for the Council to consider and take action to close. Ms. Walker will categorize these items and clarify the recommended action for each item.

Chairman Littlefield commented that the next annual audit plan report to Council would be an opportunity to highlight items that are recommended to be resolved.

**4. Discussion and possible direction to staff regarding Taxpayer Problem Resolution Officer (TPRO) Calendar Year 2009 Annual Survey Report and 1st Quarter 2010 Survey Report**

Ms. Munar reviewed the report, which included the summary of survey results for the tax and license unit and the tax audit unit. Past years surveys were included to provide context for the responses.

Two taxpayer complaints were received this year and have been resolved. One complaint was regarding the efficiency of the audit and the second was a request for an onsite review of records.

Mr. Smith, Interim City Treasurer, urged the Committee to consider conducting the surveys on an annual basis, noting that completing the surveys can be cumbersome on staff. He commented that the surveys are not scientific enough to be relevant.

Discussion ensued as to the legal requirements for conducting the survey. Ms. Walker noted that the requirement is in the Model City Tax Code and she agreed to discuss with the City Attorney and the Tax Audit Manager steps that could be taken to modify this requirement.

**5. Discussion and possible direction regarding the status of FY2009/10 Audit Plan and potential audits for FY 2010/11**

Ms. Walker reviewed the summary of the current status noting that audits and projects are all up to date. The trolley services and ambulance contracts audits will be presented during the May meeting. She expects the pool usage agreements and retirement incentive/reorganization audits to be complete in time for the June meeting. The special events/off duty audit is planned to be completed for the June meeting, but may not be due to a recent staff resignation. Currently, meetings are being conducted with division directors and charter officers and data is being reviewed for potential audit subjects for next year. This includes data analysis of items such as City program revenues and expenditures and review of City Council action items or concerns. The factors, such as potential risk and known interest, being considered are listed on the handout.

Mr. Smith expressed interest in having greater emphasis put on identifying opportunities for cost savings and revenue enhancement. Chairman Littlefield agreed that is relevant given the current economic environment. In past years, audits have focused primarily on compliance.

Chairman Littlefield noted that the CDBG should be considered as a potential audit, as indicated at the recent Council meeting. Committee Member Borowsky suggested adding the CVB contract as well as the Economic Vitality Department. Ms. Walker noted that as departments are very large, those audits are usually conducted based on a more specific concern or question. Committee Member Borowsky posed the question as to whether the Economic Vitality Department was structured effectively, as well as the

effectiveness of their marketing efforts, and the balance of event planning and funding between the department and the CVB. Ms. Walker said that she will refine, for discussion purposes, information regarding Economic Vitality by reviewing reports and activities.

Committee Member Klapp asked for historical information about cost savings and revenue enhancements in past audits. Ms. Walker noted that so far this year \$880,000 worth of cost savings and revenue enhancements have been identified. Chairman Littlefield suggested that that information be highlighted in future reports.

Ms. Walker said that a database capturing all past audits and recommendations has been developed, but it does not yet include cost savings or revenue enhancements. She noted that in many cases audits result in financial impacts that may not be stated. Ms. Walker will develop that information for the Committee.

Chairman Littlefield commented that in the current economic environment, an audit that had more opportunities for cost reduction or revenue enhancement might make it onto the audit plan that in the past would not have.

#### **6. Discussion and possible direction regarding budget and staffing update**

Ms. Walker reviewed information regarding the budget, noting that the budget does not reflect the \$40,000 in savings anticipated by the end of the year due to management of vacant positions. The requested budget for next year reflects funding for the same FTE and expenses as last year.

#### **7. Discussion of agenda items for next Audit Committee meetings**

Ms. Walker requested that the May meeting date be changed because she will be out of town. Committee members' calendars will be reviewed to determine a meeting date.

Items on the next meeting agenda include a presentation of the draft audit plan, reports on the Trolley Services and Ambulance Contract audits, and a presentation by a representative of LarsonAllen LLP regarding the process for the City's financial audit.

#### **Public Comment**

No members of the public wished to address the Committee.

#### **Adjournment**

The meeting recessed into executive session at 4:12 p.m.

Respectfully submitted,  
A/V Tronics, Inc. DBA AVTranz